



Revealing OPEBs in Your Financials

Dan McAllister, Treasurer-Tax Collector

County of San Diego

Retirement Act of 1937



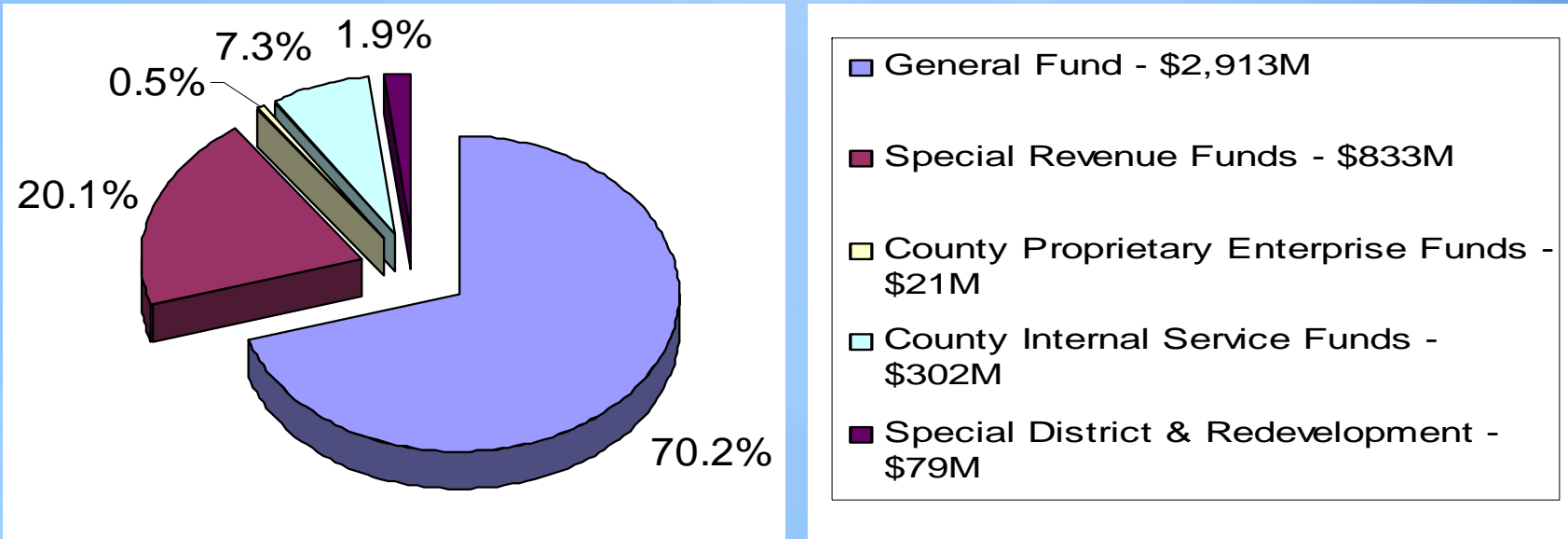
Retirement Act of 1937

- Summary Pension plan established to provide service related retirement benefits based on the number of years an employee has worked for the County.
- Authorizes counties to establish independent retirement systems for their employees. – 20 in Calif. / Other 38 – Pers
- Board of retirement has the fiduciary duty to manage the employee's retirement fund.
- Disability benefits are also provided for individuals disabled from their job of the current situation
- Los Angeles, Orange, San Diego, Alameda, San Bernadino, Sacramento, Contra Costa, San Mateo, Fresno, Ventura, Kern, San Joaquin, Santa Barbara, Marin, Sonoma, Stanislaus, Tulare, Merced, Imperial, & Mendocino

San Diego County

FY2005-06 Adopted Operational Budget

All Fund



San Diego County Employees Retirement Association (SDCERA)

SDCERA Pension Plan Facts	
Size of Funds	\$7,330 Million *
Participants	34,424 **
Active	17,482
Deferred	4,729
Retired	12,213
DROP (Deferred Retirement Option Plan)	No
ARC (Additional Retirement Credit)	No
13 th Check	No
Retirement Board Size	9
Authority	1937 Retirement Act
Rating	S & P AA+
Funded Ratio	80.3%***
Unfunded Liability	\$ 1.4 Billion ***
Unfunded Liability Amortization	20 year fixed, layered

* Value of Assets in Fund as of June 30, 2006

** Number of Participants as of June 31, 2006

*** Per the Actuarial Valuation and Review as of June 30, 2005

Sources of Funding

- *Employee Contribution*
 - Employees pay member contributions based on a percentage of their earnings.
- *Earnings from the Investment*
 - Earnings from the investment of retirement plan assets in stocks and bonds.
- *Employer Contribution*
 - Employer contributes a substantial amount each month on behalf of the employer.

The background of the slide features a clear blue sky. In the bottom-left corner, a portion of a modern building with a glass and stone facade is visible, showing several windows.

San Diego County

**OTHER POST EMPLOYEE
BENEFITS (OPEB)**

San Diego County Health Care Benefits (For Actives)

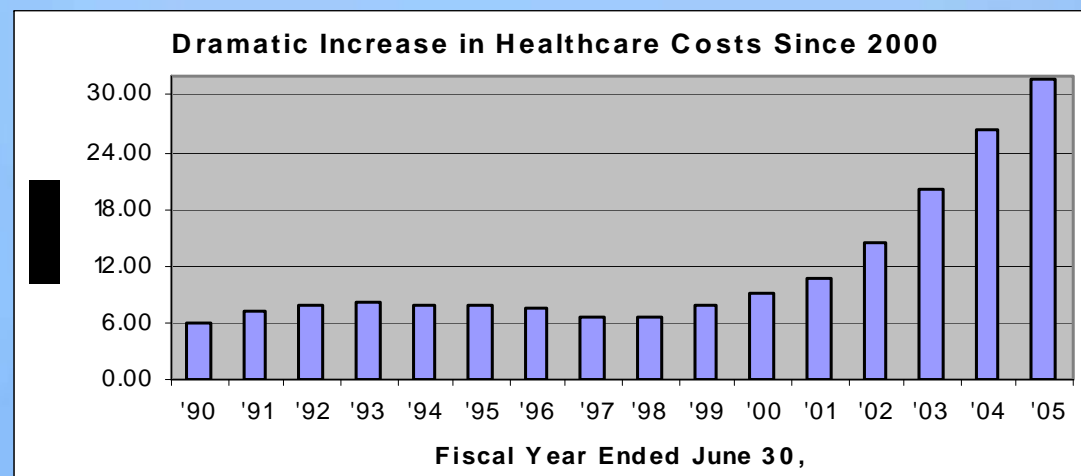
- County has 17,376 employees including the Court
- Current workforce has choice among two different health plans.
 - Kaiser
 - PacifiCare POS (point of service)
- The County's medical plans were restructured in October 2005. Flex benefits are based on bargaining unit and choice of coverage for:
 - Employee
 - Employee + 1
 - Employee + 2 or more

San Diego County Health Care Benefits (Retirees)

- Since January 17, 1974, SDCERA has paid retiree health insurance.
- In 1987 a Health Care Benefits Reserve was established.
- In 1990 the board formulated discretionary funding of health care benefits.
- Future benefits will be funded using reserve balances: 5 years for health care.
- The Number of Active Retirees Totals 11,729
 - Represents 35% of the total membership

San Diego County Health Care Benefits (Retirees)

- The Annual Number of Projected Retirees is 900.
- 2005 Health Care Benefit Allowance
 - Under 65, non-medicare - up to \$400 monthly
 - 65 and over, medicare - up to \$378 monthly
- 2005 Health Care Benefits Plan Costs - \$31.41 million
 - Costs have experienced double digit increases since 1999



San Diego County Employee's Retirement OPEB Action

- **July 21, 2005:**
 - The SDCERA Board considered a proposal concerning discretionary funding of benefits and reserves to one predicated on the funded ratio of the retirement fund.
- **September 1, 2005:**
 - SDCERA Board meeting regarding the future funding of health care benefits using excess earnings: meeting drew 800 people.
- **September 1, 2005:**
 - The SDCERA Board voted to utilize excess earnings to maintain the five-year reserve for the health benefits program.

San Diego County Employee's Retirement OPEB Education

The SDCERA Board called for several public workshops regarding funding health care and cost-of-living benefits for retirees.

- **December 19, 2005:**
 - Retiree Health Care Workshop for the SDCERA board and the public
 - Workshop pertaining to retiree health care benefit
 - Special meeting of the board was called
- **January 12, 2006:**
 - Retiree Health Care Workshop (Segal and Co.)
- **March 9, 2006:**
 - Retiree Health Care Workshop

Other Post-Employment Benefits

- SDCERA completed most recent actuarial valuation of retiree health care obligations in November 2005.
- As of June 2005, the actuarial accrued liability for post retirement health care benefits total \$639.5 million.
- As of June 30, 2005 approximately \$216.2 million was on deposit in the SDCERA health reserve, representing approximately 34% of the actuarial accrued liability.
- The County intends to fully comply with GASB 45 in 2007/2008.
- The County has retained a consultant to explore funding options for retirees' health care benefits.



Appendix

Appendix – Pension Terminology

- ***Defined Benefit***

- An employer-sponsored retirement plan for which retirement benefits are based on a formula indicating the exact benefit that one can expect upon retiring. Investment risk and portfolio management are entirely under the control of the company.

- ***Defined Contribution***

- A retirement plan wherein a certain amount or percentage of money is set aside each year for the benefit of the employee.

- ***Unfunded Liability***

- An unfunded liability is one that has been incurred during the current or prior year, that does not have to be paid until a future year, and for which reserves have not been set aside.
- **UAAL - *Unfunded Actuarial Accrued Liability*** - The excess of the actuarial accrued liability over the actuarial value of assets.

- ***1937 Act System***

- Pension plan established to provide service related retirement benefits based on the number of years an employee has worked for the County.

Pension Terminology

- ***ARC - Annual Required Contribution***
 - The total amount a government should contribute or set aside each year to meet its actuarial accrued liability.
- ***ERISA - Employee Retirement Income Security Act***
 - ERISA was designed to secure the benefits of participants in private pension plans through participation, vesting, funding, reporting, and disclosure rules.
- ***FASB - Financial Accounting Standard Board***
 - The designated private sector organization in the U.S. that establishes financial accounting and reporting standards
- ***GASB 45 - Government Accounting Standards Board 45***
 - GASB 45 is a statement issued by the Government Accounting Standards Board requiring all state and local governmental employers that provide OPEBs (Other Post Employment Benefits) to start reporting costs of these benefits provided after employment ends.

Pension Terminology

- ***OPEB - Other Post Employment Benefits***
 - Includes healthcare benefits: *medical, dental, and vision and prescription plan*
- ***OPEB Trusts - Other Post Employment Benefits Trusts***
 - 401(h) Accounts – a separately established account to fund retiree medical in much the same way as how regular retirement plans are funded
 - 115 Trust – can be established as a separate trust to hold governmental funds to provide tax free benefits for post-employment medical expenses
 - VEBA Trust - Voluntary Employee Benefit Association Trust – also known as the 501(c)(9) trust, was established around the 1940s or earlier. It can be very restrictive and was established under IRC 501(c)(9).
- ***POBs - Pension Obligation Bonds***
 - POBs are financing instruments intended to relieve the issuers of some of the annual pension contribution. POB proceeds are typically used to pay some or all of the pension plan unfunded accrued liability.